

# ISOSCELES CELL STRUCTURE

## INFORMATION

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## SPONSORED CELL CAPTIVE INSURANCE

### RISK FINANCING ALTERNATIVES

A captive insurance company is an alternative risk transfer vehicle that is wholly owned and controlled by its insureds for the primary purpose of insuring the risks of its owners.

The owners contribute their own capital in exchange for ownership in and control of the insurance company and to benefit from the potential underwriting profits. Forming a captive insurance company may be the best risk financing strategy when insurance products offered by the traditional insurance marketplace are either unavailable or don't meet an insured's risk financing needs because they are either too expensive or there is limited capacity.

Forming a captive will allow the insured to tailor its coverage to

- meet its needs;
- reduce operating costs;
- improve cash flow;
- generate investment income to fund losses;
- provide funding and underwriting flexibility;
- give greater control over claims;
- incentivize better loss control; and
- provide direct access to wholesale reinsurance markets.

### TO DISCUSS FURTHER PLEASE CONTACT

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Captive insurance companies fall into three main categories:

- Pure/Single Parent Captive – an insurance company wholly owned by its insureds parent company
- Sponsored Cell Captive – an insurance company owned and controlled by an unrelated party from the insureds (Typically by a Sponsor)
- Group Captive – an insurance company owned by its member/insureds where they share a risk amongst one another

For a variety of reasons, one may not wish to form a pure captive or join a group captive, in which case an efficient and cost effective sponsored cell captive facility may be an ideal alternative risk management solution. For many years, cell-captives have been a popular alternative to a wholly-owned captive due to the ease of implementation and lower setup costs.

## SACS, PCCS, ICCS AND SPCS

The viability of the cell captive concept has been enhanced by the utilization of segregated accounts in many domiciles and has grown considerably as a result. Segregated Accounts Companies (SACs), Protected Cell Companies (PCCs), Incorporated Cell Companies (ICCs) and Segregated Portfolio Companies (SPCs) are all based on the same concept of creating legal segregation of programs, assets and liabilities to ensure one participant's loss experience cannot pollute another cell. Depending on the domicile, the terminology may refer to SACs, ICCs, PCCs or SPCs, but the logistics and operations are generally the same.

## WHEN TO OPT FOR A CELL CAPTIVE

A sponsored cell facility provides a licensed insurance vehicle or "cell" with the necessary infrastructure for clients to participate in their own risks through a captive program. The insured operating company effectively rents the use of the captive by purchasing a preferred share or entering into a participation agreement.

A cell captive is particularly suited to:

- Financing of risk where losses, such as workers' compensation or auto liability, are predictable
- Fronting structures to access reinsurance markets
- Collateralized (re)insurance, including insurance linked securities, weather derivatives and more
- Risk transformation to bridge the gap between insurance solutions and capital markets
- Situations where market conditions may force you to retain or fund less predictable risks



## WHAT ARE THE BENEFITS

Sponsored cell facilities allow you to:

- Quickly enter and exit a captive facility at lower costs
- Participate in your own good loss history
- Benefit from profitable underwriting
- Manage risks in a flexible and efficient manner
- Stabilize insurance costs over the long term

## GLOBAL OPTIONS

JLTIM is pleased to offer its sponsored cell captive facility, Isosceles, as such a vehicle, enabling clients to benefit from a tailored financing structure to support their risk management needs. Isosceles allows clients to experience the advantages of an owned captive without assuming the administrative, capital and governance costs.

JLTIM has a wealth of global expertise managing cell captive programs and can assist in creating a tailored Isosceles solution. Additionally, JLTIM has consulted and structured sponsored captives for numerous clients who desire to have their own such facility to offer to customers or affiliates.

Isosceles was first formed in Bermuda and Guernsey in 1997 and today additional domicile options now extend to the USA and Barbados, with registration via the legislation of each jurisdiction as follows:

- Bermuda – Insurance Act 1997 and Segregated Accounts Companies Act, 2000
- Guernsey – Protected Cell Companies Ordinance 1997
- USA – Vermont Captive Legislation, The Captive Bill (Act 12) 2017
- Barbados – Companies (Amendment) Act 2001-30, SCC, SAC, ICC

## HOW TO INCORPORATE A CELL

An efficient cell incorporation process requires the following steps:

1. Completion of a feasibility study
2. A preferential shareholding or participation agreement between the cell owner and Isosceles, granting rights to underwriting profit and investment income.

3. Establishment of reinsurance or other collateral mechanisms
4. Approval from the Isosceles Board of Directors
5. Agreement to Isosceles terms and specific clauses from reinsurers when the cell is 100% reinsured

In circumstances where Isosceles assumes risk, it must be 100% collateralized by either acceptable collateral (net of assumed premium) or reinsurance. Acceptable collateral can be:

- Cash
- Letter of credit
- Collateral trust account
- Reinsurance with approved security

## HOW ISOSCELES WORKS

The amount of risk the cell manages can be determined in close collaboration with JLTIM and your broker/advisors. Premium for the policy flows from a fronting company to Isosceles, less applicable costs, which is held in an account for your benefit.

Depending on the line of business and domicile choice, the specifics can be addressed in order to tailor the solution to fit your needs. JLTIM highly recommends your broker/advisor partake in these discussions. Any underwriting profit can be returned to the parent if the cell retained risk is backed by collateral.

## ACCESS TO REINSURANCE

For the larger, more sophisticated insurance buyer, reinsurance markets will no doubt play an important part in the management and financing of risks. The broader marketplace provides increased choice and, of course, greater capacity. It is likely that you will need to access reinsurers through a licensed insurance company, and the costs and administrative burden of establishing and running your own captive can make this an unattractive proposition.

Isosceles can act as your conduit to reinsurers. JLTIM has developed a suite of documentation to ease the process and have also identified some of the technical challenges inherent in reinsurance arrangements. In short, we can help you to navigate your way through the minefield of the global reinsurance market. A simple program chart is demonstrated in Exhibit 2.

Exhibit 1

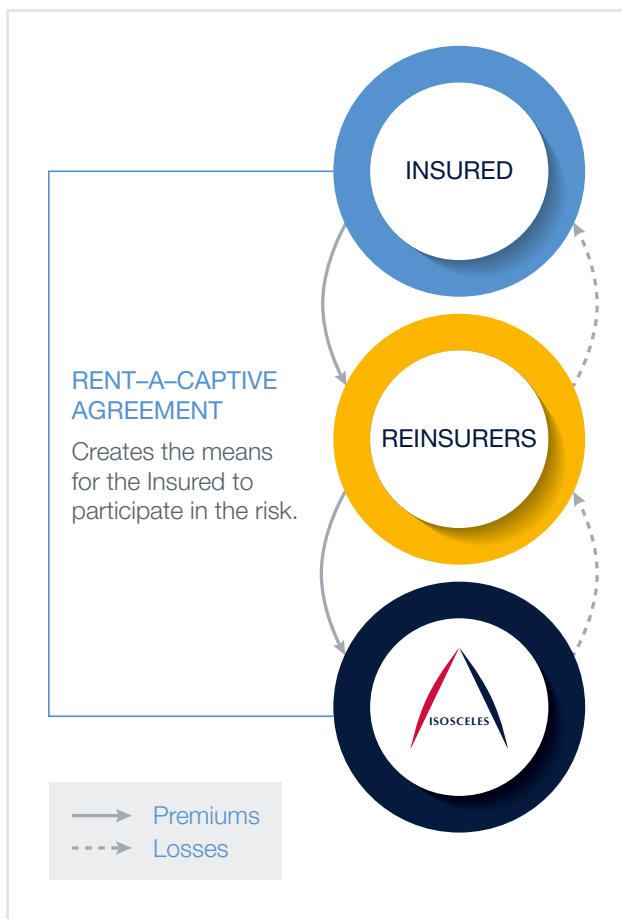
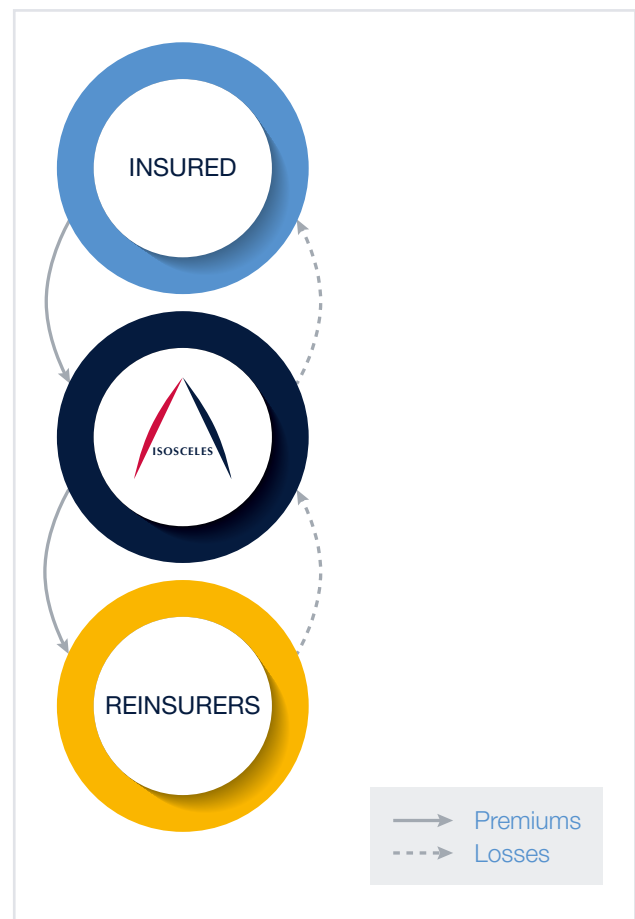


Exhibit 2



JLT provides insurance broking, risk management and claims consulting services to large and international companies. Our success comes from focusing on sectors where we know we can make the greatest difference – using insight, intelligence and imagination to provide expert advice and robust – often unique – solutions. We build partner teams to work side-by-side with you, our network and the market to deliver responses which are carefully considered from all angles.

JLT Insurance Management forms part of the Jardine Lloyd Thompson Group of companies, one of the world's leading providers of insurance, reinsurance and employee benefits related advice, brokerage and associated services. We have offices in 40 countries and territories with some 10,000 employees. Supported by the JLT International Network, we service clients in 135 countries.

## RISK TRANSFORMERS

Isosceles cells can also be used for alternative risk financing structures. In the world of ever-increasing convergence between insurance/reinsurance markets and capital markets, it is often the case that an intermediate vehicle, the risk transformer, is needed to bridge the gap between these two distinct markets. The evolving linkage between capital markets and reinsurance markets has led to unheralded innovation of capital market solutions and insurance/reinsurance structures.

JLTIM has an unparalleled record working alongside leading investment banks providing management services to their risk transformation vehicles. These vehicles have tremendous flexibility to sell or buy protection in a wide range of different forms. With this flexibility, the transformer can transact using (re)insurance contracts and, in turn, fully hedge the risk assumed through International Swaps and Derivatives Association (ISDA) derivative contracts in capital markets (or vice versa). Transformers can also play an integral part in securitization structures, converting illiquid risks into Insurance Linked Securities (ILS).

## SUMMARY

JLTIM can assist you with:

- Business planning, feasibility studies, financial projections and working with your legal and tax counsel to navigate the incorporation and regulatory approval process
- Structuring transactions and establishing cells
- Managing cash flows and financial reporting obligations
- Handle the regulatory compliance requirements manage

JLTIM has the independent expertise to assisting you in undertaking a full evaluation of the structure that would best suit your risk management goals. JLTIM brings together a global team with expertise in providing consulting and management services to risk transfer and transformation/securitisation structures plus reinsurance company management.

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